

**Submitted by Michigan Environmental Council
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2. To date, what has been Michigan's cost of renewables, and how has that impacted rates paid by residential, commercial, and industrial customers?

Overall costs of renewable energy has plummeted between 2008-2012

Since the passage of PA 295 of 2008, Michigan has experienced a significant drop in the cost of renewable energy. The first wave of contracts approved by the Michigan Public Service Commission cost in the range of 11.5 cents per kilowatt hour (kWh). In just three years, Michigan has seen that price cut in half, with new contracts for wind energy falling below 5 cents per kilowatt-hour.¹ The City of Holland in October of 2012 entered into a long-term wind contract for 4.5 cents per kilowatt-hour. News coverage of the agreement stated:

[Holland Board of Public Works] BPW would pay only 4.5 cents a kilowatt hour for power – an amount usually seen for energy from fossil fuels - from Wildcat 1 during the first year of the agreement, with increases of 2 percent annually up to 6.1 cents a kilowatt hour during the final year of the agreement.²

It is important to note that the current per kilowatt costs for renewable energy is now less than the average non-renewable costs for both DTE and Consumers Energy. According to a recent report prepared by Public Sector Consultants, the current average cost of conventional sources by Detroit Edison was 6.88 cents per kilowatt-hour, and 7.44 cents per kilowatt hour for Consumers Power.³

According to the MPSC 2012 report on Public Act 295 of 2008, 94% of the new renewable capacity that has come online in Michigan is onshore wind development. As will be explored in later questions, it is important to note that wind facilities have the additional benefit of locking in long-term prices on twenty year contracts. So, although Michigan ratepayers may be paying slightly more than the average cost of conventional sources over the first five years of the program, the costs of maintaining and operating conventional sources continues to rise and is likely to exceed the cost of even the more expensive renewable assets over their useful lives.

In summary, although renewable costs were initially higher than the generation costs of conventional sources, they are now below the cost of the average non-renewable resources from Michigan's two largest electricity producers. This fact is critical when discussing whether to move beyond a 10% renewable energy. Every additional dollar we spend will put downward pressure on rates and save Michigan resident money.

¹ http://www.dleg.state.mi.us/mpsc/orders/electric/2012/u-16582_10-31-12.pdf, U-16582

² http://www.mlive.com/business/west-michigan/index.ssf/2012/10/holland_utility_to_tap_indiana.html

³ Proposal 3: Key Questions and Answers, Public Sector Consultants, September 2012 (pg. 4)

What has been the impact on rates?

Public Act 295 includes a provision which requires a portion of the renewable energy to be paid for through a per-meter renewable energy surcharge. Those per-meter surcharges have resulted in a disparate impact on customers of different rates classes. Concerns with the per-meter charges and the reasons for transitioning to a volumetric method of payment are the following:

- 1) Because of where the caps were set for each customer class, a significant portion of the cost of renewable energy costs were shifted from the industrial and commercial classes to the residential sector in the DTE service territory.
- 2) The surcharge perpetuates the myth that renewable energy is more expensive than other forms of energy. In practice, renewable energy is now cheaper than new base load coal, nuclear or natural gas capacity and is below the average costs of all non-renewable resources.
- 3) The per-meter mechanism takes away a portion of the incentive to conserve energy use because it removes the financial benefit for doing so.

Background on how the surcharge works

In Michigan, the total costs for new renewable power is broken into two parts -- the transfer price (approximately the wholesale price of power if you were to buy it at any one time) and everything above that amount.

The transfer price portion is passed through to customers using the same formula and method as all other energy. The amount above the transfer price is passed onto customers through the use of the per meter renewable surcharge.

The charges are adjusted to reflect actual costs, but they are designed to remain steady over the life of the program. Therefore, instead of slowly increasing rates to match renewable energy production, Michigan had customers start paying the surcharge immediately. In early years, the utilities will build up a surplus of surcharge funds as they collect more than needed. In later years they will draw on this fund when revenues drop below expenditure requirements.

How it plays out with our two major utilities (serving roughly 75% of Michigan's market)

For DTE the total cost to ramp up to the first 10% renewable target is currently estimated to be \$6.4 billion. The company is projecting that about \$4.4 billion falls into the transfer price. They are currently projecting that \$2,012,466,868 will be paid through the surcharge over the life of the plan (roughly 20 years).

In 2010, residential customers were responsible for about 36% of total sales in kWh to ultimate customers. Yet in 2010 residential customers paid about 69% of the total surcharge revenue. If

you multiply \$2,012,466,868 by 69% you get \$1,388,602,139. If you multiply \$2,012,466,868 by 36% you get \$724,488,072. The bottom line is that if the current surcharges were continued residential ratepayers over the twenty year period would pay would pay \$664,114,066 for electricity they would not get. (Ex A-17 in Case U-16582)

The numbers for Consumers Energy are different because they had more renewable energy to begin with. The difference between the percentage of power used and the percentage of the surcharge paid is much closer. Instead of a \$3.00 surcharge for residential customers, Consumers Energy only collects \$0.52/month. So, there is not the same problem of the residential ratepayers subsidizing the commercial and industrial customers (for the initial 10%).